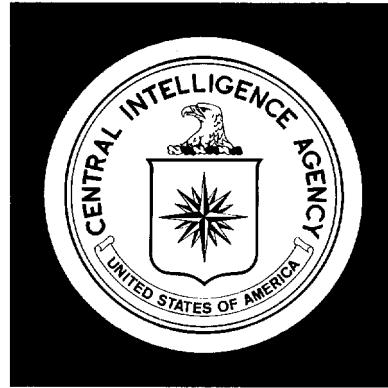


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WESTERN EUROPE - US: Diplomatic activity within the EC on preparations for a fall visit by President Nixon is continuing during the August vacation lull, but concern persists that US "pressure" for early agreement on a declaration of Atlantic principles may in fact work against a satisfactory European response.

While discussion proceeds in NATO on a possible draft declaration that would focus on defense and security matters, the EC Nine foreign ministers are preparing for a meeting on 10-11 September to discuss topics the community might take up with the President.

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Italy and most of France's other partners want the September session to go beyond a mere list of topics to define "European" positions. Some of the Nine believe, however, that the US desire for early results from the US-European dialogue will reinforce French arguments that the community needs more time to work out a common position and only bilateral US talks with individual EC states are possible at this stage. A senior Luxembourg official, for example, has told the US Embassy that the President's trip should "launch rather than conclude the Year of Europe" and that greater US flexibility on the timing of a declaration could enable the EC to get the French to be more forthcoming on both the form of the President's visit and the content of an eventual declaration.

Working-group preparations will shortly begin for the meeting on 10-11 September. The Germans want the Europeans to be ready to consult with the US following the September session.

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West German impatience with both its European partners and the US is evident in an interview with Finance Minister Schmidt published this week. Schmidt criticized the inability of the EC states thus far to come up with a common answer to the US initiative and indirectly indicted France. He also criticized the US, however, noting that the absence of adequate consultation on the US-Soviet agreement to prevent nuclear war did not inspire mutual confidence within the alliance and that the US distinction between world-wide responsibilities for America and regional ones for Europe was not very appropriate.

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WEST GERMANY - FRANCE: The controversy aroused by French Agriculture Minister Chirac's recent criticism of Bonn's policies has not only strained relations between Paris and Bonn, but is having repercussions on the West German political scene.

Opposition party leaders have echoed Chirac's charge that West Germany is "turning away from Europe" and warned that West Germany is drifting toward neutralism. Spokesmen for the opposition, particularly Christian Democratic parliamentary leader Karl Carstens, have also questioned whether the Brandt government, in its preoccupation with Ostpolitik, is paying adequate attention to Western Europe.

The government's initial public reaction to both Chirac and its domestic critics was restrained. Brandt and other government officials privately expressed displeasure and anger, however, and German officials are now publicly and sharply rebutting Chirac's charges. The US Embassy in Bonn reports that Brandt made a heated defense of his European policies during a meeting with Carstens on 21 August. He also instructed the Foreign Office to make known his displeasure to the French, and demarches have been made in both Bonn and Paris. A meeting between the French ambassador to Bonn and a senior Foreign Office official reportedly resulted in sharp exchanges and was described as quite unpleasant.

West German officials now are publicly questioning Chirac's sincerity and are generally distrustful of French policies. The West German view of l'affaire Chirac was best expressed by Foreign Office State Secretary Apel who said that if there is a problem about European integration, "it is a French problem." Apel also stated that the other EC countries were prepared to compromise "whereas France frequently held back and made it difficult, for itself and also for us."

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CHILE: The resignation last night of General Carlos Prats as both Minister of Defense and army commander in chief has further muddled an already confusing situation.

Prats has been under increasing pressure from his army colleagues to step down. The last straw appears to have been the army wives' march to his home on Tuesday and the revelation that President Allende was compiling a list of "rebel" military officers to be cashiered next month. Prats was succeeded as commander in chief by General Agusto Pinochet. All of the other members of the cabinet--including the military officers--have submitted their resignations, but, thus far, these have not been accepted by Allende. A cabinet change may occur within the next few days, however.

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[redacted] despite press speculation that a strike settlement is imminent, the president of the truckers' confederation says that the strike will continue at least until 28 August.

SWEDEN: The election campaign has reached its mid-point and there are still no signs of a clear shift in voter opinion toward either the ruling Social Democrats or the three non-socialist opposition parties.

The Social Democrats, aware of the waning appeal of foreign policy issues at a time when the voters are concerned about economic problems, are stressing domestic achievements and promising new measures to improve the lot of the wage-earner. Last week, Prime Minister Palme came out in favor of increasing old-age pensions and reducing the tax burden on workers by shifting the responsibility of retirement contributions to the employers. Palme probably expects the proposal to neutralize the issue of high taxes, one of the most potent weapons in the opposition's arsenal.

Some Social Democrats are skeptical, fearing that the plan may backfire and aggravate the unemployment issue which, according to polls, is the principal concern of most voters. They theorize that the prospect of higher labor costs will discourage employers from hiring additional workers. Government leaders probably hope that the recent increase in subsidized relief work and seasonal adjustments will improve the unemployment picture before the elections on 16 September.

Despite the failure of the opposition parties to do little more than criticize the government--especially on the issue of high taxes--their campaign is attracting some attention. According to the US Embassy in Stockholm, the non-socialist parties continue to draw large and enthusiastic crowds at their rallies. Nevertheless, unity among the Liberals, Centrists, and Conservatives continues to be handicapped by lack of agreement on a broad platform that would attract the support of voters in all three parties.

Libyan-Egyptian Union: Controversy down to the Wire

With the deadline for union little over a week away, Egypt and Libya have yet to agree on a formula for their merger. Controversy continues over the structure of union, its implementation, and its leadership, and there is a less pressing, but far more serious disagreement over the fundamental policies of the unified state. Presidents Qadhafi and, to a lesser extent, Sadat have attached considerable personal prestige to this much heralded step toward Arab unity, and the chances are still reasonably good that they will reach pro forma agreement in time for a formal proclamation on 1 September. The agreement will nonetheless probably embody little more than the trappings of unity and the first few interim steps toward substantive integration. Whatever the two leaders set in motion next month, the fundamental differences between them will sharpen as each tries to control the other, generating much friction.

Paradoxically, President Qadhafi has been the most formidable obstacle to his own unity scheme. His refusal thus far to approve anything less than a "complete and immediate" union has virtually canceled out over 13 months of planning. In public, he has protested that Sadat must assume leadership of the union, but in the actual negotiations he has been unwilling to accept any less political clout or military authority than his Egyptian partner. His fervent espousal of his own brand of Islamic radicalism, particularly his cultural revolution, has deepened misgivings about the merger at home and in Egypt. Finally, his brinksmanship--most notably the "march on Cairo" and his brief but dramatic retirement--has convinced the wary Egyptian leadership that it cannot enter a full partnership with Libyan extremism. Despite this Egyptian firmness, Qadhafi continues to bargain for concessions from Cairo and apparently means to do so right down to the 1 September deadline--and afterwards if necessary. He has delayed the final working session with President

Sadat in a deliberate last-minute war of nerves, but the Egyptians reportedly are still steadfast in their decision not to cave in to Qadhafi's demands.

The Egyptians originally entered the union project unenthusiastically. Sadat saw certain benefits to be gained if the merger could be accomplished on Egyptian terms. But in view of Cairo's ill-fated unity schemes in the past, it has been particularly circumspect in its approach to the merger with Libya.

The union's principal attraction for Egypt lies in the access it would provide to Libya's oil wealth and the opportunity to farm out surplus Egyptian workers in the backward but lucrative Libyan economy. Egypt receives an annual subsidy of \$59 million from Libya, and has in the past received large ad hoc cash payments. More recently, however, Qadhafi has only been willing, to make military purchases on Egypt's behalf. The Egyptians probably hoped to dominate any union that would give Cairo more direct and more dependable access to Libyan money.

The chief problems from Cairo's standpoint lie in the role Qadhafi himself would assume in the united state and the part his policies would play in any unity scheme. Sadat wants the Libyan leader in a position of responsibility, primarily because he feels he can better control Qadhafi in office rather than out. He also believes that Qadhafi's presence in the government would be a palliative to those elements in Egypt, however small in number, who admire the dynamic Libyan and favor union because he is its chief advocate.

Sadat is wary, however, of allowing Qadhafi a role from which he could control any facet of Egyptian policy. Sadat balks at appointing Qadhafi armed forces commander in chief, a position he might try to use to translate his extreme views on Israel into action. On the domestic front, Sadat is determined to deny Qadhafi leverage to introduce his cultural revolution in Egypt. The Egyptian leaders are disdainful of the cultural revolution, chiefly because

they regard it as the embodiment of the political immaturity that they believe they overcame 20 years ago; their disdain is tinged with apprehension, however, at the disruption such a revolution could cause in Egypt.

A number of scenarios for union have emerged from sessions of the specialized unity subcommittees and from the subsequent meetings--increasingly frequent in the past few months--of the higher-level unity commissions that are directly answerable to the two presidents. Virtually all have involved a plebiscite to be held on 1 September and the initial integration of a few ministries, to be followed at some later, usually unspecified period by fuller union. All have been modeled on the Egyptian concept of a gradual integration that would preserve substantial autonomy for both regions.

The Egyptian plan most recently reported to be under discussion may become the basis for any compromise settlement between the two sides. The proposal calls for one capital, one cabinet, one military establishment, and one political party. President Sadat would be nominated for the presidency with Qadhafi as the vice-presidential candidate. A referendum would be held in both countries to approve the proposal, after which a unified cabinet would be formed. Only the foreign ministries, defense establishments, and perhaps the interior ministries would be integrated--at least initially.

The Egyptians apparently are willing to dress up this scenario with a proclamation that it represents "complete" merger, but Qadhafi is dissatisfied with what he considers to be mere cosmetics and has continued to withhold his approval.

The deadlock can be broken in the week remaining before 1 September, but Sadat has set out his minimum position and the burden now rests with Qadhafi. Sadat has committed enough of his reputation to the merger that an announcement on 1 September of some

steps to keep it alive is important to him. The union is not important enough, however, to induce him to bow to Qadhafi's demands and, if the Libyan leader will not compromise in the week ahead, Sadat would be prepared to reject unity entirely. Sadat has, or believes he has, less troublesome commitments from other Arab states, notably Saudi Arabia, of political and financial support that could compensate for the loss of a partnership with Libya, and he may feel that the failure of merger would not in any event necessitate a complete severance of relations with the Libyans.

In the face of the Egyptian refusal to accept the Libyan blueprint, Qadhafi may compromise, accepting a tactical delay in the pursuit of his goals. Qadhafi could try yet another dramatic ploy to get his own way, but at this juncture this seems improbable. Even when he seems most impetuous, the Libyan leader calculates his potential gains and losses, and this time he stands to jeopardize his drive toward Arab unity, a cause he most fervently believes in. For him, merger with Egypt is the first critical step in the "battle" to restore Palestine and in the campaign to rejuvenate Arab dignity. Sadat no doubt strikes Qadhafi as an unsuitable leader of this campaign; nevertheless Egypt--for Qadhafi--is the essential vanguard of the Arab people. Qadhafi may also believe that he--or the force of his principles--will eventually dominate and strengthen the union, no matter how feeble it is initially. With this belief in the forefront of his mind, Qadhafi could justify a temporary compromise without abandoning his vision of a united and powerful Islamic Arab nation.

FOR THE RECORD*

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China-US: The first of ten Boeing 707 jet aircraft purchased by Peking arrived in Shanghai on 23 August. The delivery of the jetliner followed a two-week delay because of minor mechanical problems. The long-range aircraft probably will be used in China's expanding international air system. [redacted]

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Mexico-US: US and Mexican negotiators have reached a final agreement on the Colorado River salinity problem, resolving one of the major irritants in relations between the two countries over the last decade. The agreement states that by July 1974 the US will take measures to control the salinity of water that flows into the Mexicali Valley. Joint presidential approval of the agreement is expected before the end of the month. [redacted]

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